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National Intelligence Bulletin

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11 July 1974

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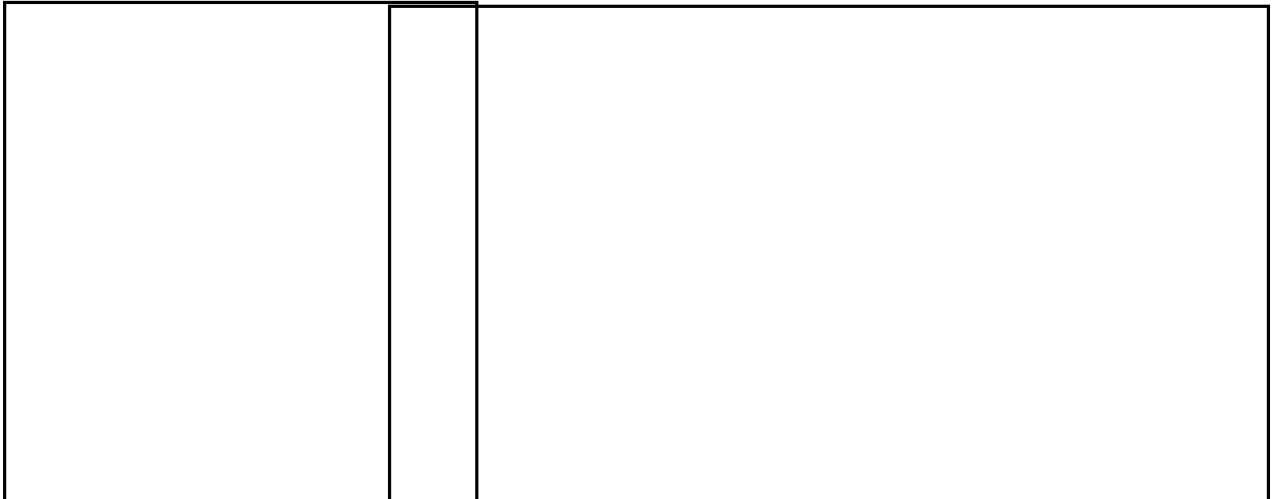
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USSR-EGYPT

The USSR has suddenly postponed the visit to Moscow of Egyptian Foreign Minister Fahmi that was scheduled for July 15. Fahmi said in Cairo yesterday that Soviet party boss Brezhnev had sent an "urgent message" asking that the visit be put off until October because "circumstances" prevented adequate preparation.



It is possible that some as-yet-undisclosed problem arose between the two countries in the past few days that prompted the postponement. The wording of the Egyptian announcement of the Soviet action suggests, however, that Cairo was caught by surprise.

The postponement may have been caused by the unwillingness of the Soviets to make hard decisions on resuming military aid to Cairo and the venue of a Brezhnev-Sadat meeting. On the other hand, Moscow may have very recently decided to switch tactics toward the Egyptians. The Soviets may have decided to play tougher with Cairo in the expectation that Sadat will be weakened domestically when it becomes clear that Egyptian military forces have no alternative to the USSR for equipment. The immediate impact of the postponement, however, is likely to further sour Sadat on the Soviets.

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It is also possible that the postponement of the Fahmi visit is related to the cancellation of visits by two other foreign leaders. The Soviets on July 2 canceled a visit by Pakistani Prime Minister Bhutto only five days before he was to be in Moscow. A mid-July visit by Indonesian Foreign Minister Malik was also canceled. These cancellations may be only coincidental, but in all three cases the Soviets have cited the press of other business as necessitating the postponements.

One such piece of business is a Central Committee plenum apparently scheduled for July 23-24. If more than routine matters are to be considered, the Soviets may not want to be saddled with important foreign visitors. The French foreign minister, however, is due in Moscow tomorrow, and Brezhnev is going to Poland for a ceremonial visit just before the plenum.

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EC - ARAB STATES

The EC-Arab dialogue is making progress, but it is evidently not taking the place of efforts by individual EC countries to develop extensive bilateral arrangements with various Arab states.

The long-pending meeting between EC and Arab leaders has been set for July 31 in Paris. The participants, EC Commission President Ortoli, French Foreign Minister Sauvagnargues as president of the EC Council, Arab League Secretary General Riyad, and Kuwaiti Foreign Minister Sabah as president of the Arab League, will try to reach agreement on areas of cooperation that have thus far been described only in general terms.

By the end of the year, groups of experts are expected to begin serious work on outlining specific projects to be undertaken. The last obstacle was removed on July 10 when the Arabs lifted their oil embargo against the Netherlands--a condition The Hague insisted on before giving its consent to meetings of the experts.

Meanwhile, both West Germany and Denmark are eagerly pushing ahead with plans for large-scale bilateral deals with the Arab states. At the first meeting of the Joint West German - Egyptian Economic Commission last week, Bonn agreed to provide some \$200 million in capital assistance over the next three years. Half of the aid will be tied to specific projects, while the remainder may be used for the purchase of essential imports.

Bonn also committed itself to provide export credit guarantees of about \$110 million.

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The amount of aid offered to Cairo, however, will place Egypt second only to India as a West German aid recipient

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The Danes, with the same objective in mind, have sent Foreign Minister Guldberg on an official visit to Cairo. He is expected to sign a \$7-million developmental loan and discuss future Danish technical aid to Egypt. The visit coincides with other moves by Copenhagen to foster better relations with the Arab states. For example, the Danes have invited Saudi Minister of State for Foreign Affairs Saqqaf to visit Copenhagen next month. Such attention contrasts with Denmark's traditional close ties with Israel and reflects Copenhagen's continuing concern about the vulnerability of its oil supplies.

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LAOS

The coalition cabinet yesterday agreed to dissolve the dormant, rightist-controlled National Assembly, according to press from Vientiane.

Prime Minister Souvanna had earlier proposed that the advisory political council, chaired and dominated by Pathet Lao leader Souphanouvong, be expanded and turned into a new legislative body. Initial press reports, however, say only that the cabinet decided on an early dissolution of the present assembly, with elections for a new body 90 days thereafter.

The Communists, who control only a small portion of the Lao population, have made clear their opposition to an early national election. It is possible, therefore, that Souvanna may intend to utilize a vague provision of the Lao constitution that permits the King to form a new assembly, either by "limited vote" or "limited consultation." In this manner a new legislative body presumably could be created with equal representation for the Pathet Lao and non-Communist sides.

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CYPRUS-GREECE

President Makarios has refused to back down in the current test of wills with Athens over his efforts to reduce Greek influence on the island. He has not accepted Athens' view that a reduction in the number of Cypriot national guardsmen and a withdrawal of mainland Greek officers would seriously weaken the island's defense. Athens has not yet formally responded to Makarios' demands, but it would be reluctant to lose its influence over the National Guard. An attempt by the junta to remove Makarios from power cannot be ruled out.

Makarios appears to have precipitated a crisis at this time for a variety of reasons. Athens is currently preoccupied with the dispute with Ankara over mineral rights in the Aegean and may be less willing to become involved in a conflict with Nicosia at the same time.

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The Turkish Foreign Ministry is taking a relaxed view of the crisis, confident that Makarios can handle any effort by Athens to remove him from power. The Turks do not believe that their interests would be either threatened or advanced by a clash between Makarios and Athens, but they have been concerned for a long time that EOAK-B elements might take action against the Turkish community on the island. The Turks view a Greek Cypriot - commanded National Guard as no more dangerous to the Turkish community than a guard under the control of pro-enosis mainlanders. [REDACTED]

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PORTUGAL

President Spinola's delay in accepting the resignations tendered yesterday by Prime Minister Palma Carlos and four centrist ministers raises the possibility that a compromise is being worked out to maintain centrist representation in the cabinet.

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There continue to be conflicting reports on what triggered the resignations. Among the factors involved were:

--difficulties Palma Carlos had getting approval of legislation to deal with the present economic difficulties;

--dissatisfaction on the part of the left with the slow pace of withdrawal from Africa;

--possibly a power play by Spinola designed to strengthen his position and make the cabinet more conservative.

If a balanced government is re-established, it will appear most likely that Spinola ran into objections from the Armed Forces Movement, which brought him to power.

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JAPAN

The yen is beginning to weaken after remaining fairly steady for several months. The mounting oil bill had been causing a gradual deterioration since May, but the pace accelerated last month after the Finance Ministry began restraining Eurodollar borrowing by Japanese banks.

Yesterday, the yen fell 1 percent against the dollar, its sharpest decline since January. If the slide continues, the Bank of Japan may soon begin to supply dollars to the Tokyo foreign exchange market, either by increasing its deposits in foreign exchange banks or by direct intervention. The last major intervention by the central bank occurred in January when the exchange rate fell to 300 yen to the dollar. The yen closed at 291 yesterday and exporters are holding back dollar earnings in anticipation of a further weakening.

Heavy short-term Eurodollar borrowing by Japanese banks was contributing to the yen's stability, despite a balance-of-payments deficit of about \$6.5 billion during the first half of 1974. With this source now limited and increased borrowing in the US making up only part of the difference, the immediate outlook is for the yen to weaken further unless the Bank of Japan takes some action.

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CHILE

The new cabinet announced yesterday reflects the trend toward army primacy in the military government and indicates that the armed forces' determination to reconstruct Chile in their own way is as strong as ever after ten months of military rule.

Ten new ministers entered the cabinet--which was expanded to 17 members with the creation of a new Transportation Ministry--while three changed jobs and four remained in their posts. Army representation jumped from three to five, while that of the navy dropped from four to three. The air force and carabineros retained three ministries apiece, and civilians hold three cabinet posts.

The military men who lost their cabinet jobs were mainly those, such as Admiral Huerta at the Foreign Ministry, whose performances had been disappointing. Army General Bonilla's shift from the Interior Ministry indicates that there will be no early softening of the political "recess" that has hamstrung the Christian Democratic Party. Bonilla is thought by many of his colleagues to be overly sympathetic toward the party. The continued almost exclusively military cast of the cabinet could be offset somewhat by the naming of civilians to key under secretary positions. New under secretaries are due to be named today.

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FOR THE RECORD

Germany: Pankow is apparently following Moscow's lead in responding to Bonn's plans to open an environmental office in West Berlin.

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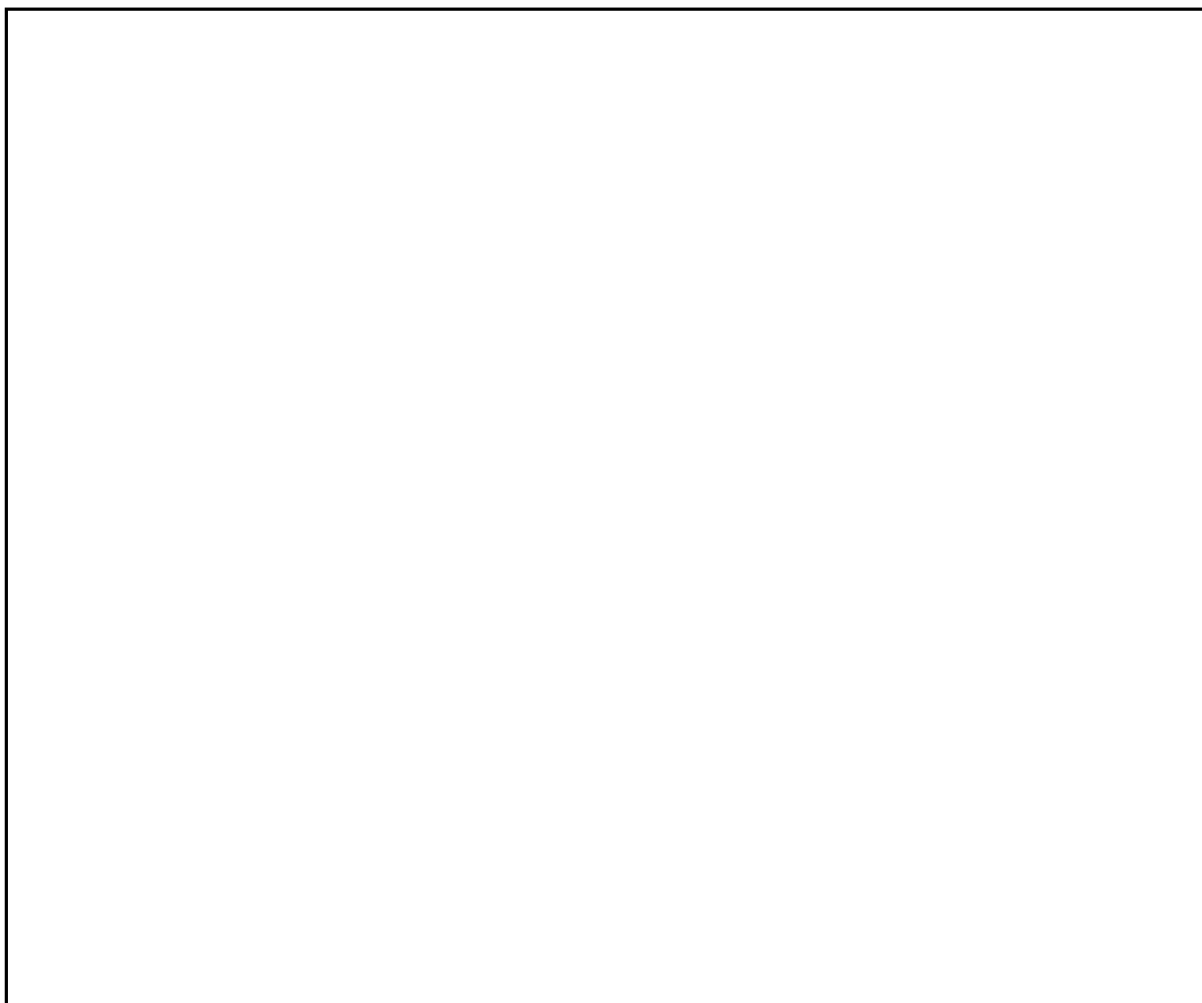
the fall of Brandt Pankow reportedly had been under pressure from Moscow to be more conciliatory in negotiations with Bonn. While the East German media blast Bonn's "attempts to undermine the Quadripartite Agreement," no decision has yet been made by Pankow on how to respond to the actual opening.

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South Korea: The government has released Catholic Bishop Chi Hak-sun, who had been held for four days on a charge of having supported a student conspiracy to overthrow the government. Chi was freed after Cardinal Kim met with President Pak. The cardinal had been trying to negotiate Chi's release in order to defuse Catholic protests.



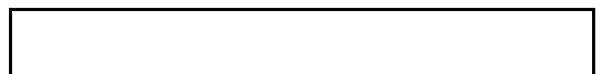
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